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Abatement Expenditures, Technology Choice, and Environmental Performance: Evidence from Firm Responses to Import Competition in Mexico

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Abstract

Abatement expenditures are not the only available tool for firms to decrease emissions. Technology choice can also indirectly affect environmental performance. We assess the impact of import competition on plants' environmental outcomes. In particular, exploiting a unique combination of Mexican plant-level and satellite imagery data, we measure the effect of tariff changes due to free-trade agreements on three main outcomes: plants' fuel use, plants' abatement expenditures, and measures of air pollution around plants' location. Our findings show that import competition induced plants in Mexico to increase energy efficiency, reduce emissions, and in turn *reduce* direct investment in environmental protection. Our findings suggest that the general technology upgrading effect of any policy could be an important determinant of environmental performance in developing countries and that this effect may not be captured in abatement data.

JEL Code: F18, O33, Q56

Keyword: Environment, Technological Change, Remote Sensing Data. Plant-level Response to Trade.

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